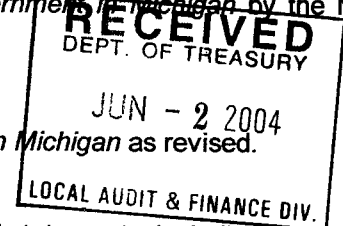


AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Elm River	County Houghton
Audit Date March 31, 2004	Opinion Date May 20, 2004	Date Accountant Report Submitted to State: May 20, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

GENERAL PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUN - 2 2004
Year Ended March 31, 2004

IT & FINANCE DIV

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

May 20, 2004

To the Township Board
Township of Elm River
Houghton County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Elm River, Houghton County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Elm River's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Elm River, Houghton County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Elm River, Houghton County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004 EXHIBIT A

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Agency</u>
<u>Assets</u>			
Cash in bank	116 034 12	21 538 76	49 971 39
Taxes receivable	2 980 18	788 32	-
Due from other funds	23 401 07	6 233 37	-
Land	-	-	-
Buildings and improvements	-	-	-
Equipment	-	-	-
Total Assets	<u>142 415 37</u>	<u>28 560 45</u>	<u>49 971 39</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Due to other funds	-	-	29 634 44
Due to other taxing units	-	-	20 336 95
Total liabilities	<u>-</u>	<u>-</u>	<u>49 971 39</u>
Fund equity:			
Investment in general fixed assets	-	-	-
Fund balances:			
Unreserved:			
Undesignated	<u>142 415 37</u>	<u>28 560 45</u>	<u>-</u>
Total fund equity	<u>142 415 37</u>	<u>28 560 45</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>142 415 37</u>	<u>28 560 45</u>	<u>49 971 39</u>

The accompanying notes are an integral part of these financial statements.

<u>Account Group</u> <u>General</u> <u>Fixed Assets</u>	<u>Total</u> <u>(Memorandum</u> <u>Only)</u>
-	187 544 27
-	3 768 50
-	29 634 44
5 050 07	5 050 07
109 112 51	109 112 51
<u>147 908 17</u>	<u>147 908 17</u>
<u>262 070 75</u>	<u>483 017 96</u>
-	29 634 44
<u>-</u>	<u>20 336 95</u>
<u>-</u>	<u>49 971 39</u>
262 070 75	262 070 75
-	170 975 82
<u>262 070 75</u>	<u>433 046 57</u>
<u>262 070 75</u>	<u>483 017 96</u>

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B

Page 1

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special</u>	<u>(Memorandum</u>
		<u>Revenue</u>	<u>Only)</u>
Revenues:			
Property taxes	37 962 10	11 438 14	49 400 24
Other taxes	18 158 61	5 925 29	24 083 90
State revenue sharing	16 203 75	-	16 203 75
Charges for services:			
Property tax administration	4 305 72	-	4 305 72
Interest	1 341 45	426 79	1 768 24
Rents	550 00	-	550 00
Miscellaneous	18 622 39	-	18 622 39
Total revenues	<u>97 144 02</u>	<u>17 790 22</u>	<u>114 934 24</u>
Expenditures:			
Legislative:			
Township Board	19 912 07	-	19 912 07
General government:			
Supervisor	13 140 94	-	13 140 94
Elections	1 553 29	-	1 553 29
Clerk	5 016 61	-	5 016 61
Treasurer	5 699 52	-	5 699 52
Cemetery	375 84	-	375 84
Public safety:			
Liquor law enforcement	1 268 50	-	1 268 50
Fire protection	-	12 276 43	12 276 43
Public works:			
Street lighting	7 686 10	-	7 686 10
Sanitation	18 300 00	-	18 300 00
Culture and recreation:			
Recreation	6 336 64	-	6 336 64
Total expenditures	<u>79 289 51</u>	<u>12 276 43</u>	<u>91 565 94</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B
Page 2

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Excess of revenues over expenditures	17 854 51	5 513 79	23 368 30
Fund balances, April 1	<u>124 560 86</u>	<u>23 046 66</u>	<u>147 607 52</u>
Fund Balances, March 31	<u>142 415 37</u>	<u>28 560 45</u>	<u>170 975 82</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS

Year Ended March 31, 2004

EXHIBIT C
Page 1

	General Fund		
	Budget	Actual	Over (Under) Budget
Revenues:			
Property taxes	33 000 00	37 962 10	4 962 10
Other taxes	22 500 00	18 158 61	(4 341 39)
State revenue sharing	14 600 00	16 203 75	1 603 75
Charges for services:			
Property tax administration	4 000 00	4 305 72	305 72
Interest	1 100 00	1 341 45	241 45
Rents	200 00	550 00	350 00
Miscellaneous	900 00	18 622 39	17 722 39
Total revenues	<u>76 300 00</u>	<u>97 144 02</u>	<u>20 844 02</u>
Expenditures:			
Legislative:			
Township Board	16 675 00	19 912 07	3 237 07
General government:			
Supervisor	12 714 00	13 140 94	426 94
Elections	1 270 00	1 553 29	283 29
Clerk	5 982 00	5 016 61	(965 39)
Treasurer	6 982 00	5 699 52	(1 282 48)
Cemetery	1 930 00	375 84	(1 554 16)
Public safety:			
Liquor law enforcement	1 537 00	1 268 50	(268 50)
Fire protection	-	-	-
Public works:			
Street lighting	8 900 00	7 686 10	(1 213 90)
Sanitation	18 300 00	18 300 00	-
Culture and recreation:			
Recreation	10 800 00	6 336 64	(4 463 36)
Other:			
Contingency	500 00	-	(500 00)
Capital outlay	<u>1 000 00</u>	<u>-</u>	<u>(1 000 00)</u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Fund</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
9 600 00	11 438 14	1 838 14
6 900 00	5 925 29	(974 71)
-	-	-
-	-	-
300 00	426 79	126 79
-	-	-
<u>1 000 00</u>	<u>-</u>	<u>(1 000 00)</u>
<u>17 800 00</u>	<u>17 790 22</u>	<u>(9 78)</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
17 720 00	12 276 43	(5 443 57)
-	-	-
-	-	-
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUND
Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		<u>Over (Under) Budget</u>
	<u>Budget</u>	<u>Actual</u>	
Total expenditures	<u>86 590 00</u>	<u>79 289 51</u>	<u>(7 300 49)</u>
Excess (deficiency) of revenues over expenditures	(10 290 00)	17 854 51	28 144 51
Fund balances, April 1	<u>84 609 13</u>	<u>124 560 86</u>	<u>39 951 73</u>
Fund Balances, March 31	<u><u>74 319 13</u></u>	<u><u>142 415 37</u></u>	<u><u>68 096 24</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Fund</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<u>17 720 00</u>	<u>12 276 43</u>	<u>(5 443 57)</u>
80 00	5 513 79	5 433 79
<u>11 000 00</u>	<u>23 046 66</u>	<u>12 046 66</u>
<u>11 080 00</u>	<u>28 560 45</u>	<u>17 480 45</u>

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Elm River, Houghton County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Elm River. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2003 Township tax roll millage rate was 4.0059 mills and the taxable value was \$11,186,912.00.

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments (continued)

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>187 544 27</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	112 561 99
Uninsured and Uncollateralized	<u>75 515 64</u>
Total Deposits	<u>188 077 63</u>

The Township of Elm River did not have any investments as of March 31, 2004.

Note 3 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land	5 050 07	-	-	5 050 07
Buildings and improvements	109 112 51	-	-	109 112 51
Equipment	<u>147 908 17</u>	-	-	<u>147 908 17</u>
Totals	<u>262 070 75</u>	-	-	<u>262 070 75</u>

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 4 – Budget Variances

Public Act 621 of 1978 requires that a municipality shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township were adopted on an activity level, and amended periodically by the Township Board. During the year ended March 31, 2004, the Township incurred expenditures in certain activities which were in excess of the amounts appropriated.

<u>Fund/Activity:</u>	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Township Board	16 675 00	19 912 07	3 237 07
Supervisor	12 714 00	13 140 94	426 94
Elections	1 270 00	1 553 29	283 29

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	23 401 07	Current Tax Collection	29 634 44
Fire	<u>6 233 37</u>		
Total	<u>29 634 44</u>	Total	<u>29 634 44</u>

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Pension Plan

The Township has a defined contribution pension plan covering substantially all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$1,935.04.

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 8 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Building Permits

The Township of Elm River does not issue building permits. Building permits are issued by the County of Houghton.

Note 10 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF ELM RIVER
Houghton County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2004

EXHIBIT D

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>18 942 14</u>	<u>414 599 02</u>	<u>383 569 77</u>	<u>49 971 39</u>
Total Assets	<u>18 942 14</u>	<u>414 599 02</u>	<u>383 569 77</u>	<u>49 971 39</u>
<u>Liabilities</u>				
Due to other funds	-	50 445 96	20 811 52	29 634 44
Due to others	<u>18 942 14</u>	<u>364 153 06</u>	<u>362 758 25</u>	<u>20 336 95</u>
Total Liabilities	<u>18 942 14</u>	<u>414 599 02</u>	<u>383 569 77</u>	<u>49 971 39</u>

CAMPBELL, KUSTERER & CO., P.C.

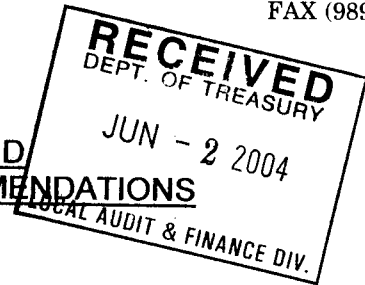
CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS



May 20, 2004

To the Township Board
Township of Elm River
Houghton County, Michigan

We have audited the financial statements of the Township of Elm River, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Elm River in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board
Township of Elm River
Houghton County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board
Township of Elm River
Houghton County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Elm River will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer : Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants